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14 CHURCH OF SCIENTOLOGY INTERNATIONAL

15 UNITED STATES BANKRUPTCY COURT

16 NORTHERN DISTRICT OF CALIFORNIA

17 In re	) CASE NO. 95-10911 aj
18	)
19 GERALD ARMSTRONG,	) Chapter 7
20	)
21 Debtor	) Adv. No. 95-1164
22	)
23 CHURCH OF SCIENTOLOGY	) FIRST AMENDED
24 INTERNATIONAL, a California non-	) COMPLAINT TO DETERMINE
25 profit religious corporation,	) DISCHARGEABILITY AND
26	) IN OBJECTION TO
27 Plaintiff,	) DISCHARGE AND FOR
28	) DECLARATORY RELIEF
	)
29 v.	) [11 U.S.C. §§
30	) 727(a) (4) (A);
31 GERALD ARMSTRONG,	) 727(a) (5) ]
32	)
33 Defendant.	)
34	)

35 Church of Scientology International ("CSI"), plaintiff, and  
36 creditor of the above-named debtor, Gerald Armstrong  
37 ("Armstrong") in a sum in excess of \$300,000 alleges:

38 INTRODUCTION

39 1. Debtor Armstrong has engaged in a pattern of fraud and  
40 deceit that mandates dismissal of his bankruptcy petition without  
41 discharge, or, alternatively, that his debt to plaintiff be

1 deemed nondischargeable. First, he has lied to this Court, the  
2 trustee and his creditors by failing to include, as part of his  
3 Schedule B, his ownership in the Gerald Armstrong Corporation.  
4 In 1993, Armstrong testified that the assets of the Gerald  
5 Armstrong Corporation were worth \$1 billion. In 1994, Armstrong  
6 admitted under oath that he owned 80% of the shares of the stock  
7 in the corporation, and was its president and sole employee.  
8 Second, while testifying at a meeting of creditors, Armstrong  
9 asserted that the Gerald Armstrong Corporation no longer  
10 possessed any assets having any commercial value. Armstrong has  
11 failed to satisfactorily explain how he disposed of not only the  
12 \$1 billion in assets claimed by the Gerald Armstrong Corporation,  
13 but also \$518,000 of the \$800,000 which he received as proceeds  
14 of a legal settlement, and at least \$15,000 which he received in  
15 large increments in 1992 and 1993. These actions render  
16 Armstrong ineligible for discharge pursuant to 11 U.S.C. §§  
17 727(a)(4)(A) and (5).

18 In addition, Armstrong has now been permanently enjoined by  
19 the Los Angeles Superior Court from committing any further  
20 breaches of the agreement which entered into with CSI in 1986.  
21 CSI seeks a declaration that Armstrong's obligations under that  
22 injunction will survive any discharge in bankruptcy.

### 23 JURISDICTION

24 2. This is an adversary proceeding in the debtor's Case  
25 No. 95-10911 aj under Chapter 7 of Title 11 of the United States  
26 Bankruptcy Code, now pending in this Court. This Court has  
27 jurisdiction of this adversary proceeding pursuant to 11 U.S.C.  
28 §§ 727, 523 and 365, and by order of this Court dated May 25,



1 1995. This is a core proceeding under 28 U.S.C. §§ 157(b)(2)(I)  
2 and (J).

3 3. Defendant Armstrong is not eligible for discharge as a  
4 debtor in his bankruptcy action pursuant to 11 U.S.C. §§  
5 727(a)(4)(A) and (5).

6 PARTIES

7 4. Plaintiff Church of Scientology International ("CSI")  
8 is, and was at all times relevant herein, a California non-profit  
9 religious corporation having its principal office in the City of  
10 Los Angeles, County of Los Angeles, State of California.

11 5. Defendant Gerald Armstrong is an individual who at all  
12 times relevant herein has been a resident of the City of San  
13 Anselmo, County of Marin, State of California.

14 GENERAL AVERMENTS

15 6. Armstrong's debt to CSI arises in the context of a  
16 state court action for breach of contract, Church of Scientology  
17 International v. Gerald Armstrong, Marin County Superior Court,  
18 Case No. 157 680 ("the State Court Action"). CSI obtained  
19 summary adjudication of six of its breach of contract claims in  
20 that action, and dismissed the remaining claims, resulting in a  
21 judgment against Armstrong of \$300,000, together with costs and  
22 attorneys fees. A true and correct copy of the state court  
23 judgment, entered on \_\_\_\_\_, is attached hereto as  
24 Exhibit A. As part of the judgment, CSI was awarded a permanent  
25 injunction against Armstrong. A true and correct copy of the  
26 permanent injunction is attached hereto as Exhibit B.

27 7. The contract which forms the basis of the State Court  
28 Action was entered into by Armstrong and CSI in December, 1986



1 ("the Agreement"). A true and correct copy of the Agreement is  
2 attached hereto as Exhibit C. It settled outstanding litigation  
3 between CSI and Armstrong according to certain terms and  
4 conditions. Armstrong has admitted that the settlement proceeds  
5 which he received were \$800,000, and that he received \$518,000  
6 after paying attorneys' fees and expenses.

7 8. Pursuant to the Agreement, Armstrong, who had been  
8 actively pursuing a career as an anti-Scientology "expert" and  
9 paralegal, agreed, inter alia, that he would not disclose his  
10 knowledge of or experiences in Scientology to anyone, and would  
11 not voluntarily aid other litigants or would-be litigants in  
12 anti-Scientology litigation. (Agreement, ¶¶ 7(D), 7(G), 7(H) and  
13 10). The Agreement also provided that Armstrong would pay CSI  
14 \$50,000 in liquidated damages for every prohibited disclosure.

15 9. Armstrong claims that in August, 1990, he was directed  
16 by God to give away his material assets. He transferred real  
17 property valued at approximately \$530,000 and at least \$35,000 in  
18 cash to his friend and lawyer, Michael Walton. He also claims  
19 that he forgave an outstanding debt to Walton of \$30,000.  
20 Armstrong further claims that he forgave other debts to friends  
21 and family members totalling approximately \$133,000 and gave away  
22 additional cash totalling \$1,500. Armstrong has asserted under  
23 oath that he received no valuable consideration for any of these  
24 transfers. Although he was asked to do so in the State Court  
25 Action, Armstrong has not produced any records of any of these  
26 transactions, other than a few documents concerning the transfer  
27 of the real property to Walton.

28 10. In or about August, 1987, Armstrong incorporated a



1 California corporation which he called the Gerald Armstrong  
2 Corporation ("GAC"). Armstrong was the only incorporator,  
3 officer, and director of the corporation.

4 11. In February, 1992, CSI brought the State Court Action  
5 against Armstrong, alleging that he had repeatedly breached the  
6 provisions of the Agreement delineated in Paragraph 8, supra.  
7 CSI sought and obtained a preliminary injunction enforcing  
8 portions of the Agreement.

9 12. Armstrong testified in the State Court Action that, on  
10 incorporation, GAC issued a single share of stock to a single  
11 shareholder: Gerald Armstrong. Armstrong also testified that he  
12 transferred significant personal assets to GAC in 1988, including  
13 personal and intellectual property. Armstrong has testified that  
14 in August, 1990, the value of GAC's assets was \$1,000,000. He  
15 based this figure on an appraisal of some of Armstrong's works  
16 owned by GAC, which he testified were independently valued at  
17 \$900,000. In addition, in August, 1990, Armstrong listed the  
18 following personal property as further assets of GAC: office  
19 equipment, office furniture, four filing cabinets and contents,  
20 photocopier, drafting table, drafting machine, MAC and Image  
21 Writer II, VCR, opaque projector, projector table, Morantz  
22 portable twin head recorder, microphone, 2 sets of headphones, 3  
23 chests of drawers, futon frame, cover, linen, futon, pillows,  
24 Chines rug and 2 rockers.

25 13. Armstrong claimed, under oath in the State Court  
26 action, that GAC "possesses a number of Gerald Armstrong's  
27 artistic and literary works, possesses rights to a number of his  
28 inventions and rights to certain formulas, and is in the business



1 of bringing peace and exploiting its assets for commercial and  
2 peaceful purposes." He also testified that GAC owns "equipment  
3 and products." The business of GAC, according to Armstrong, is  
4 to care for, promote and exploit "the works of Gerald Armstrong."

5 14. Armstrong testified in the State Court Action that in  
6 August, 1990, at the same time that he made the transfers  
7 described in paragraph 10, supra, he transferred his ownership in  
8 GAC to Michael Walton, Michael Douglas, Lorien Phippeny and Nancy  
9 Rhodes. According to Armstrong, his single share of stock was  
10 divided into 100 shares, and each of the four received 25 shares.  
11 Walton, Douglas, Phippeny and Rhodes paid Armstrong nothing for  
12 the shares of stock.

13 15. Shortly after making the transfers referred to in  
14 paragraphs 12 and 14, supra, Armstrong initiated successive  
15 breaches of the Agreement, which resulted in the filing of the  
16 State Court Action. When Armstrong disclosed the transfers in  
17 the State Court Action, CSI brought a fraudulent conveyance  
18 action against Armstrong and Michael Walton. That action was  
19 consolidated into the State Court Action in September, 1994.

20 16. Armstrong admitted in deposition in the State Court  
21 Action that he reacquired the shares of stock in GAC which he had  
22 distributed to Walton, Douglas, Phippeny and Rhodes. In October,  
23 1992, Armstrong testified that GAC had 9 shareholders. He owned  
24 80 shares. Single shares were owned by Armstrong's friends and  
25 relatives, Michael Douglas, Michael Walton, Andrew Armstrong,  
26 Thomas McPherson, Joseph Yanny, Michael Dick, Trevor and Colin  
27 Dick, and Anthony Armstrong. In 1993, GAC issued a single share  
28 to Armstrong's brother, Andrew Armstrong. In 1994, GAC issued a



1 single share to Armstrong's brother, Anthony Armstrong.  
2 Armstrong testified again in 1994 that he owned 80% of GAC's  
3 stock.

4 17. Armstrong has testified, in deposition in the State  
5 Court Action, that he is currently the President, and only  
6 officer, of GAC, one of its two directors, and its only employee.  
7 In 1993, he testified that GAC has a single bank account, and  
8 that he was the sole signatory on that account.

9 18. In March, 1993, Armstrong testified under oath that he  
10 estimated the value of the assets owned by GAC to be  
11 \$1,000,000,000 to \$1,500,000,000.

12 19. In May, 1995, at an early meeting of creditors,  
13 Armstrong testified under oath that GAC no longer possessed any  
14 assets of commercial value.

15 FIRST CLAIM FOR RELIEF

16 (For a Determination That Armstrong's Debts Are Not  
17 Dischargeable Pursuant to 11 U.S.C. §727(a)(4)(A))

18 20. Plaintiff incorporates by reference the allegations  
19 contained in paragraphs 1 through 19 above as though set forth  
20 fully herein.

21 21. On April 18, 1995, Armstrong filed a Voluntary Petition  
22 for Bankruptcy with this court. He swore under penalty of  
23 perjury that the information which he provided in the Petition  
24 was true and correct. On Schedule B of his Petition, Line 12,  
25 Armstrong stated that he owned no stock or interests in  
26 incorporated or unincorporated businesses. CSI is informed and  
27 believes, and therefore alleges that on April 18, 1995, Armstrong  
28 owned and still owns at least 80% of the stock of the Gerald



1 Armstrong Corporation.

2 22. CSI is informed and believes and therefore alleges that  
3 GAC is, and at all times relevant herein was, operated by and for  
4 the benefit of Gerald Armstrong as his alter ego. The alleged  
5 corporate form of GAC should, accordingly, be disregarded, and  
6 GAC's assets considered the assets of Armstrong.

7 23. Armstrong's failure to include his ownership of GAC in  
8 Schedule B is a deliberate omission of a material matter  
9 constituting a false oath or account in connection with the case.

10 24. Armstrong failed to disclose his ownership of GAC and  
11 its assets with the intent to mislead creditors and the trustee  
12 as to the debtor's true financial condition, or with reckless  
13 disregard for the truth with regard to a matter material to the  
14 case.

15 25. As a result of the foregoing, Armstrong's debts are not  
16 dischargeable in bankruptcy pursuant to 11 U.S.C. §727(a)(4)(A)

17 **SECOND CLAIM FOR RELIEF**

18 (For a Determination That Armstrong's Debts Are Not  
19 Dischargeable Pursuant to 11 U.S.C. §727(a)(5))

20 26. Plaintiff incorporates by reference the allegations  
21 contained in paragraphs 1 through 24 above as though set forth  
22 fully herein.

23 27. In 1986, Armstrong received a substantial sum of money  
24 from CSI in settlement of litigation. Armstrong has testified  
25 under oath that he invested the money in real property and GAC,  
26 and that GAC, set up solely to exploit Armstrong and his literary  
27 and artistic ventures, prospered. He has claimed, under oath in  
28 the State Court Action, that GAC's assets were valued, in 1990,



1 at \$1 million, and, in 1993, he valued them at \$1 billion to \$1.5  
2 billion.

3 28. Armstrong's Bankruptcy Petition claims assets of  
4 \$6,485, and liabilities of \$1,005,367.52. At the meeting of  
5 creditors, on May 17, 1995, Armstrong claimed under oath that  
6 GAC possessed no assets of any commercial value.

7 29. Armstrong has offered no satisfactory explanation for  
8 his claimed losses of \$518,000 since 1986, \$1 million since 1990,  
9 or \$1 billion to \$1.5 billion since 1994.

10 30. As a result of the foregoing, Armstrong's debts are not  
11 dischargeable in bankruptcy pursuant to 11 U.S.C. §727(a)(5).

12 **THIRD CLAIM FOR RELIEF**

13 (For a Determination That the State Court Injunction is Not  
14 Dischargeable as a Claim Pursuant to 11 U.S.C. § 101(4))

15 31. Plaintiff incorporates by reference the allegations  
16 contained in paragraphs 1 through 30 above as though set forth  
17 fully herein.

18 32. On May 25, 1996, plaintiff obtained relief from stay in  
19 this court in order to obtain a judgment in the State Court  
20 Action. On \_\_\_\_\_, the honorable Gary W. Thomas ordered  
21 the clerk of the court to enter final judgment in that action  
22 against the debtor.

23 33. Incorporated into that final judgment is Judge Thomas's  
24 order of permanent injunction. In that order, Judge Thomas  
25 specifically found that an injunction to prevent future breaches  
26 of the settlement agreement was necessary and proper according to  
27 California law. He found that "entry of a permanent injunction  
28 in this action is necessary in this action because pecuniary



1 compensation could not afford the Church adequate relief, and the  
2 restraint is necessary in order to prevent a multiplicity of  
3 actions for breach of contract. Civil Code § 3422(1), (3)."

4 34. The permanent injunction order issued by the state  
5 court is not a claim which can or should be discharged in  
6 bankruptcy. It does not require the debtor to transfer any  
7 assets or property to anyone, nor can it be reduced to a monetary  
8 claim.

9 35. Plaintiff was ordered by this Court on May 25, 1995 to  
10 raise the issue of dischargeability of the injunction as an  
11 adversary proceeding once the State Court Action had proceeded to  
12 judgment.

13 WHEREFORE, plaintiff prays for the entry of judgment against  
14 defendant as follows:

15 1. That the Court determine that the debts of defendant be  
16 ruled nondischargeable as a result of defendant's knowingly and  
17 fraudulently making a false oath in connection with a bankruptcy  
18 case by virtue of the provisions of 11 U.S.C. § 727(a)(4)(A); and

19 2. That the Court determine that the debts of defendant be  
20 ruled nondischargeable as a result of defendant's failure to  
21 satisfactorily explain his loss of and/or deficiency of assets by  
22 virtue of the provisions of 11 U.S.C. § 727(a)(5); and

23 3. That the Court determine that the permanent injunction  
24 entered by the Los Angeles Superior Court in the case of Church  
25 of Scientology International v. Gerald Armstrong, Marin County  
26 Superior Court, Case No. 157 680, is not a claim which can be  
27 discharged in this action;

28 4. For an award of attorney's fees as allowable by law in



1 an amount the Court determines to be reasonable;

2 5. For costs of suit herein incurred; and

3 6. For such other and further relief as this Court deems  
4 just and proper.

5 DATED: January \_\_, 1996

WILSON, RYAN & CAMPILONGO

6  
7 By:

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